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State Review:

Missouri

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State Review: Missouri

Credit Profile

GO Debt
AAA/Stable

Lease-Backed Debt
AA+/Stable

The 'AAA' rating on Missouri's GO bonds reflects Standard & Poor's Ratings Services' assessment of the state's:

- Strong and diverse economic base;
- Good financial management that is required by state law to make midyear budget cuts, as needed, to preserve balanced operations;
- Strong reserves in the form of a budget reserve fund that can only be accessed under certain circumstances; and
- Low debt burden.

The state's certificates of participation and leasehold revenue bonds are rated one notch below the state GO rating at 'AA+' to reflect annual appropriation risk.

In our view, the Missouri economy's greatest strength is its diversity, which is based partially on the state's location at the geographic center of the nation; this gives it an economic advantage in trade and manufacturing. The state's two major metropolitan areas, St. Louis and Kansas City, where 55% of the state's population resides, host a wide variety of employment opportunities across all income levels, and provide the lion's share of the state's income. Missouri's population grew 9.3% in the 1990s to about 5.6 million in 2000, making it the nation's 18th most populous state and the fifth largest west of the Mississippi River. Population in 2009 is estimated at over 5.9 million. The state's income levels are just below the national average, with 2008 per capita effective buying income at 92% of the national level. The state's seasonally adjusted unemployment rate was 9.3% through October 2009, which was below the national rate of 10.2%.

Despite the impact of the national economic downturn, the state's fiscal 2010 budget was adopted on time originally detailing \$23.1 billion in overall spending, which was up 2.9%, or more than \$660 million, from fiscal 2009 appropriations. Of the total fiscal 2010 budget, \$7.8 billion was for general revenue spending. The general revenue budget decrease 9.7% from the prior year appropriations. Inclusive of the overall budget are increases of more than 1% from the previous year in elementary and secondary education, 8% in social services, and 3% in higher education. The budget also projected in a slight increase in revenues and the use of \$1.2 billion of federal money received under the American Reinvestment and Recovery Act (ARRA). Through September 2009, revenues, particularly from the state's largest sources--personal income tax, corporate income tax, and sales taxes, were down in total 8% (10% net of refunds) from the same period in the previous fiscal year. As a result, Missouri reduced its budget by \$200 million, but left education spending alone. The state will maintain its constitutionally-mandated budget reserve fund ("rainy day" fund) at 7.5% of 2010's net general revenue. Through November 2009, general revenue receipts were down 6.8% (7.7% net of refunds) from the previous year's total, with personal income tax collections down 6% (8.1% net of refunds), corporate income taxes down 13% (10.4% net of refunds) and sales

taxes down 8% (7.7% net of refunds). Missouri updates its forecast in December with monthly reviews by consensus revenue estimate members. As per state law, the budget is mandated to stay in financial balance. As a result, state officials are required to make midyear budget cuts in order to preserve a balanced budget, albeit such measures have not been taken in recent years.

With the impact of the national recession beginning to be felt in fiscal 2009 on the state's revenue base, Missouri ended the year with an overall decrease in general revenue reserves of nearly \$645 million. Actual collections of the state's primary revenues (personal income taxes, corporate income taxes, and sales taxes) were down 6.9% in comparison to the state's budgeted estimates. Declines of 6.4% in personal income tax collections, 22% in corporate income taxes, and 6.1% in sales taxes were the main drivers that led to the state's revenues decreasing \$780 million from the estimate on which the budget was based. Missouri was able to reduce its expenditures through the receipt of \$250 million in Federal Medical Assistance Percentage. At fiscal year-end 2009, the budget reserve fund was fully funded, as required by the Missouri Constitution, at \$520 million. The dollar amount in the budget reserve fund decreased from the previous year, due to a decrease in general revenues.

For the state's last audited year, fiscal 2008, the state reported a \$67 million operating surplus, which raised the general fund balance to \$1.92 billion (14.7% of expenditures). The state's rainy day fund, which is part of the restricted general fund balance, was fully funded at its constitutionally mandated level of \$559 million, or 7.5% of 2008's net general revenue, at fiscal year-end 2008.

The state's financial management practices and policies are considered to be "good" under Standard & Poor's Financial Management Assessment (FMA). A FMA score of good indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials.

Missouri is constitutionally prohibited from issuing GO bonds without voter approval, except for refunding bonds and emergency issues up to \$1 million. Consequently, revenue bonds and annual appropriation bonds are important components of capital financing strategy. Including GO, lease-backed, and gas tax highway bonds, Missouri's debt burden is what we consider low at about \$663 per capita. In addition, the debt carrying charge has been low, about 1.2% to 2.0% of total governmental expenditures. Debt to personal income is low at 1.8%.

Outlook

The stable outlook reflects Standard & Poor's expectation that Missouri will continue to maintain its high level of reserves and good financial management, with early and decisive budgetary cuts in the event that future revenues do not meet projections. The outlook also reflects the state's diverse economy, anchored by the St. Louis and Kansas City metropolitan areas.

Economy

According to IHS Global Insight's December 2009 short-term forecast, Missouri's real gross state product, which is an inflation-adjusted measure of the goods and services produced within the state, will decrease 1% in 2009 from 2008. The state's real gross state product grew at an average annual rate of only 4% from 2003-2009. The forecast pegs the state's five-year (2010-2014) average annual growth rate to increase 4%.

Table 1

Missouri -- Economic Data							
	2009p	2008	2007	2006	2005	2004	2003
Real gross state product (Bil. \$)	189.7	193.8	191.2	188.8	189.1	186.4	183.2
Employment (000's)	2733.7	2829.3	2,870.3	2,868.9	2,837.0	2,815.9	2,813.6
Unemployment rate	9.1	6.1	5.1	4.8	5.4	5.7	5.6
Personal income (Bil. \$)	213.8	216.5	207.6	198.7	186.7	180.5	172.5
Personal income growth (%)	(1)	4	4	6	3	5	4
Population (000's)	5,950.52	5,915.88	5,861.8	5,834.0	5,803.9	5,764.6	5,724.0
Net migration (000's)	4.2	3.1	10.6	19.3	19.3	17.5	11.7
Housing starts, private single-family (000's)	6.23	8.35	16.4	22.8	28.8	27.2	25.9
Housing starts, private multi-family (000's)	2.43	3.54	4.3	5.7	4.7	3.9	4.8
New vehicle registrations (000's)	193.45	237.7	281.4	285.9	284.6	305.7	298.3

p--Projected.

Manufacturing continues to be an integral part of Missouri's economy, although the share of manufacturing employment has declined steadily in the past two decades to 9% in 2006. Other major employment sectors in the state include education, health, and professional services (37% of the state's jobs), trade/transportation/utilities (18%), and government (13%). Missouri's leading employers include: the state (63,000 employees, which includes full-time, part-time, and seasonal); Wal-Mart (40,000); University of Missouri (20,000); U.S. Post Office (15,000-18,000); Boeing Corp. (10,000-15,000); Washington University (10,000-15,000); Schnuck Markets (7,500-10,000); Barnes-Jewish Hospital (7,500-10,000); U.S. Dept. of Defense (7,500-10,000); and the City of St. Louis (7,500-10,000). The state's seasonally adjusted unemployment rate was 9.3% through October 2009, which was below the national rate of 10.2%.

Finances

Missouri derives about 24% of its general revenue from sales and use tax collections and 65% from income tax receipts. Article X of the Missouri Constitution limits the amount of taxes and fees that can be imposed by the General Assembly; the limit is tied to an increase in average personal income. If 1% or more of revenues in any given fiscal year exceeds the limit, the state must refund the excess amount to taxpayers. Due to the state's better-than-expected economic performance in the 1990s, Missouri refunded a total of \$979 million for fiscals 1995-1999. No refunds were due following the end of fiscals 2000-2009.

Following an amendment to the Missouri Constitution approved by voter referendum in November 2000, Missouri's budget stabilization and operating reserve funds were combined into a single budget reserve fund beginning in fiscal 2001. The fund must be maintained at a level equal to 7.5% of the previous year's net general revenue collections and cannot be spent, except with the governor's declaration of an emergency and a two-thirds vote by the legislature. The budget stabilization fund has only been tapped once, following massive flooding in the state along the Mississippi and Missouri rivers in 1993.

Since the state is not authorized to issue tobacco settlement bonds, it continues to collect its share of annual payments from the 1998 tobacco settlement, which total about \$150 million each year and are used to fund special health programs and life sciences research.

The state's financial management practices and policies are considered to be "good" under Standard & Poor's Financial Management Assessment (FMA). An FMA score of good indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. Missouri performs detailed research for revenue and expenditure growth trends for the current year budget and performs a forecast for two additional years. It performs current year budget reconciliations monthly and reports them to the legislature. The state passes supplemental budgets annually to cover appropriation shortfalls. In addition, the governor is required by the state constitution to withhold and rescind spending to maintain expenditures within actual revenues and maintain the budget reserve fund at 7.5% of the prior year's general revenue collections. The state is in the process of formulating a 15-year capital plan, although it is not yet complete. Investment policies are comprehensive, reviewed monthly by the state Treasurer, with holdings updated monthly and made available to the public. The state does not have formal, written guidelines for debt management at this time.

Table 2
Missouri -- Financial Data

(Mil. \$)	--Fiscal year ended June 30--					
	2008	2007	2006	2005	2004	2003
General Fund—GAAP						
General fund revenue	15,974	15,363	15,759	14,826	13,934	13,326
General fund expenditures	13,025	12,151	12,752	12,683	11,504	11,394
Net transfers and other adjustments	(2,882)	(2,845)	(2,398)	(2,414)	(2,236)	(1,805)
Net general fund operating surplus (deficit)	67	367	608	(273)	193	127
Total general fund balance	1,920	1,880	1,514	904	1,175	1,034
Unreserved general fund balance	1,336	1,312	988	327	627	477
"Rainy day" operating reserve funds	559	539	513	464	445	463
Combined unreserved general fund plus rainy day funds/general fund expenditures (%)	14.7	15.2	11.8	6.2	9.3	8.2
Net surplus (deficit)/general fund expenditures (%)	0.51	3.0	4.8	(2.2)	1.7	1.1
Debt						
Direct GO debt	666.00	685	740	791	855	901
Appropriation debt	960.00	965	848	904	921	914
Highway gas-tax bonds	2,298.00	1,834	1120	829	861	630
Per capita GO debt (\$)	112.65	117	128	137	150	158
Per capita GO plus appropriation debt (\$)	275.03	301	274	293	312	318
GO and appropriation debt to personal income (%)	0.76	0.87	0.82	0.92	1.01	1.08
Debt service/operating fund expenditures (%)	0.7	2.0	1.9	1.2	1.1	1.4

GAAP--Generally accepted accounting principles. GO--General obligation. Basis of accounting: Modified accrual.

Debt

Missouri is constitutionally prohibited from issuing GO bonds without voter approval, except for refunding bonds and emergency issues up to \$1 million. Consequently, revenue bonds and annual appropriation bonds are important components of capital financing strategy. Missouri had about \$906 million in lease-purchase bonds and certificates of participation as of June 30, 2009, including \$623 million issued by the Board of Public Buildings. In addition, at fiscal year-end 2009, the state had \$600 million of GO debt and more than \$2.3 billion of gas tax and motor vehicle

registration fee-backed bonds issued by the Missouri Highways and Transportation Commission. Including GO, lease-backed, and gas tax highway bonds, Missouri's debt burden is in our view low at about \$663 per capita. Existing authorizations allow the state to issue an additional \$285.5 million in GO bonds for water pollution and storm water control. At this time, it is our understanding that the state does not have any near-term debt plans nor variable rate debt.

As it relates to the state's pension and other post employment benefits (OPEB) obligation, the state has recently completed an actuarial evaluation on its OPEB liability. The state estimates its total OPEB obligation at \$2.6 billion and will establish a trust fund to pay the expected obligation. In regards to its pension obligations, Missouri has two major retirement systems, which substantially cover all state employees. The larger plan was funded (accrued assets/accrued liabilities) at 86% at fiscal year-end 2008. The unfunded actuarial liabilities are amortized over 30 years. The second, but smaller, plan was funded at 59% at fiscal year-end 2008.

Related Research

- USPF Criteria: "GO Debt," Oct. 12, 2006
- USPF Criteria: "Appropriation-Backed Obligations," June 13, 2007

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